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Brazil Announces New Credit Package for Agribusiness

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Report Highlights:
The National Monetary Council (CMN, in Portuguese) announced on April 16, 2009 a new credit line of R$ 12.6 billion (US$5.7 billion) to finance different sectors of the Brazilian agribusiness industry, of which R$ 10 billion is designated for agricultural cooperatives and processors, the agricultural machinery industry, and meat packers. In addition, it provided R$ 2.3 billion to enable the ethanol industry to hold ethanol stocks during the peak of the 2009/10 harvest.

General Information:

The National Monetary Council (CMN) met on April 16, 2009 and announced several credit lines to assist the agribusiness sector, of which the most important measures are:

1. Credit line of R$ 10 billion ((US$4.5 billion) for agricultural cooperatives and processors, the agricultural machinery industry, and meat packers. This credit line is destined only for working capital, with annual interest rates of 11.25%, for repayment in 24 months, including a one year grace period. Funds will originate from the National Bank for Economic and Social Development (BNDES) and be provided through commercial banks;
2. Credit line of R$ 2.3 billion (US$ 1.05 billion) for the ethanol and sugar industry to finance up to 5 billion liters of ethanol stocks at annual interest rates of 11.25%. BNDES and Bank of Brazil will provide the financial resources.

Since credit became scarcer in Brazil last year, the Brazilian government has used BNDES as a major financier of long-term agricultural investments, but also now as a provider of shorter-term working capital and trade finance to companies that saw their usual credit lines vanish. Although, the new credit line announced for working capital has an interest rate of 11.25%, higher than the usual 6. 75% for the subsidized rural credit, it is still lower than the 12 to 18 percent that agribusiness companies get in the market today. The new credit lines were welcomed by the beef, poultry and pork industries. However, according to government sources meat processors that filed for protection from creditors under the local equivalent of U.S. Chapter 11 bankruptcy law are not allowed to obtain credit under the above mentioned conditions. According to press accounts, 21 meat processors closed down since the beginning of the credit crunch and 52,000 people have been dismissed.

In addition to the above referred credit package, the Brazilian government also published on April 2, 2009, the rules for the so-called "integrated drawback" under Directive No. 1 (see GAIN 9662) to facilitate the cash flow of processors of pork and chicken by reducing the domestic federal taxes called IPI (tax on manufactured products) and PIS-COFINS (social security tax). Post's trade sources say that the exemption of these taxes (IPI 4 to 5 %) and PIS/COFINS (9.5 %) will improve the cash flow of pork and chicken processors by about 9%.